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THE DIRECTOR OF  
CENTRAL INTELLIGENCE

National Intelligence Council

16 April 1987

NOTE FOR: Senior Review Panel

FROM: Maj Gen Frank B. Horton III, USAF  
Chairman

SUBJECT: M/H of NIE 97-84  
PERU: ECONOMIC AND POLITICAL PROSPECTS

1. Attached for your review and comment are the Concept Paper and Terms of Reference for the Memorandum to Holders of NIE 97-84 PERU: ECONOMIC AND POLITICAL PROSPECTS. The estimate was requested by the Department of State, and will be prepared under the auspices of the NIO/LA.  DI/ALA will be the principal d. 25X1

2. We would appreciate your comments at your earliest convenience.

*/s/*  
Frank B. Horton III

Attachment:  
as stated

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MEMORANDUM TO HOLDERS OF NIE 97-84  
PERU: ECONOMIC AND POLITICAL PROSPECTS

Concept Paper

The prospects for the new government in Peru were last assessed in late 1984, when NIE 97-84 was prepared in anticipation of the early 1985 presidential elections. The Estimate projected the victory of Alan Garcia and correctly outlined the key challenges that would confront his new administration. While still popular after two years in office, however, Garcia faces mounting economic and political pressures which need further analyses, especially in light of trends that have emerged over the past year.

- Garcia moved quickly--and with some success--to deal with a range of problems inherited from his predecessor. He has managed his difficult economic legacy better than anticipated in 1984, but rising inflation and reduced investment are likely to lead to serious problems in the months ahead, and Garcia may have to come to terms with some of Peru's major foreign creditors.
- The Intelligence Community correctly projected that the problem posed by the leftist insurgent group Sendero Luminoso would resist easy solution, but Garcia's policies have been ineffective and the guerrillas have become increasingly successful in mounting both rural and urban operations.
- The Intelligence Community estimated that no Peruvian government would be able to make much headway against coca producers; Garcia--although anxious to curb trafficking--has in fact hesitated to commit substantial resources to the eradication effort.
- The military--estimated in 1984 to be unlikely to intervene in the government--seems restive over the government's vacillating counterinsurgency strategy and Garcia's plans to form a new defense ministry that would tighten civilian control over the services.
- Finally, we predicted that Garcia's foreign policy strategy would be markedly more nonaligned and less pro-American than that of his predecessor. We also forecast closer Soviet Bloc ties, but failed to predict problems with Cuba brought about largely by Garcia's aspirations to a regional leadership role.\*

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The Memorandum to Holders will evaluate President Garcia's performance in office and assess prospects for continued democratic government in Peru during the next two to three years. Specifically, it will focus on Garcia's management of the economy, the insurgency, drug enforcement programs, relations with the military, and key foreign policy issues. It will also assess the implications for US policy interests and the government's vulnerability to outside pressure. Key questions to be answered include:

- What are the prospects that President Garcia will be able to deal with his major domestic challenges over the next few years, including the economy, the insurgency, and the narcotics problems?
- What are the chances that Garcia will assume a major leadership role on various regional issues, including debt, Central American policy, and the East-West balance, including Soviet/Cuban ties?
- What is the outlook for Garcia's political future, including the next election? If he were to fall, how would he be removed and what kind of regime is likely to replace him?
- What key variables would most likely affect Garcia's overall prospects over the next several years, how vulnerable is he to external pressures, and what are the implications for the United States?

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MEMORANDUM TO HOLDERS OF NIE 97-84  
PERU: ECONOMIC AND POLITICAL PROSPECTS

Terms of Reference

- I. What are the prospects that President Garcia will be able to deal with his major domestic challenges over the next few years, including the economy, the insurgency, and the narcotics problem?
  - A. Will Garcia manage to sustain the economic growth registered in the past year and continue to reject foreign creditors?
    - What has been his performance thus far?
    - Is Garcia heading for future economic difficulties?
    - Is his administration likely to come to terms with foreign creditors?
  - B. Is the the leftist Sendero Luminoso likely to continue to expand and will the insurgency pose a serious threat to the central government?
    - How and why has the insurgency grown since Garcia assumed office?
    - Can the insurgency destabilize the Peruvian government?
    - Will Garcia toughen his counterinsurgency strategy to meet the challenge?
  - C. Will Garcia devote the resources necessary to combat narcotics trafficking?
    - What factors have affected his drug policies thus far?
    - What pressures exist to encourage more aggressive efforts?
- II. What is the outlook for Garcia's political future, and is he likely to attempt to remain in office beyond 1990?
  - A. What will be the impact of growing rifts inside APRA?
    - The nature of the divisions.
    - Will Garcia be able to manage the splits?
  - B. Will the opposition parties of the United Left (IU) make sufficient gains in coming months to mount a strong challenge for the presidency?
    - How has the IU fared under Garcia?
    - Who are the likely IU presidential candidates and what is the likelihood of the IU unifying behind one candidate in 1990?
    - What vulnerabilities does the IU see in the Garcia administration?

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C. What is the likelihood that Garcia's policies will prompt military intervention by 1990?

- What will be the impact of Garcia's attempts to gain better control and direction of military policy, including the President's counterinsurgency strategy, antidrug programs, and the new defense ministry law?
- Which services would support a coup and what factors might prompt military intervention?

III. What are the chances that Garcia will assume a major leadership role on various regional issues, including debt, Central American policy, and the East-West balance?

A. What factors have shaped Garcia's foreign policy and are any changes on critical issues likely?

- Is Garcia likely to press for a debtors' cartel?
- Will he be a significant player in the Central American equation?
- Does Garcia still want to gain the presidency of the Non-Aligned Movement?

B. How will Garcia manage Peru's relationship with the Soviet Union and Cuba?

- Are the Soviets likely to gain additional influence under Garcia?
- Is Garcia likely to try to alter the military relationship with Moscow?
- Will Garcia reach some measure of accommodation with Castro?

IV. What key variables would most likely affect Garcia's overall prospects over the next few years, how vulnerable is he to external pressure, and what are the implications for the US?

A. What key variables would affect the most likely outcome?

- What are possible alternative scenarios?
- What will be the most important indicators of another outcome?

B. Will Garcia respond to external pressure?

- On what issues, if any, of importance to the US might Garcia show some flexibility?

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- What would he want in exchange for a policy shift, and is he likely to approach Washington for military or other assistance to combat the insurgency and drug trafficking?

Proposed Tables:

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- The Military under Garcia
- Profile of Extremist Groups
- A Look at Economic Performance

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